MISSOURI PUBLIC SERVICE
GAS TASK FORCE MEETING
MAY 24, 2001

Appearances:
From MO PSC: Warren T. Wood, P.E., Gas Dept. Manager
200 Madison Street, Jefferson City, MO 65102

Also Present: Doug Micheel and Tim Schwartz

BE IT REMEMBERED that on Thursday, the 24th day of May, 2001, at 6:30 p.m., at Truman State University, Violet Hall, Room 1000, Kirksville, Missouri, the following proceedings were had, to wit:

MR. WOOD: I need your name for the court reporter, please.

AMANDA JONES: I'm Amanda Jones with the Kirksville Daily Express. And I just wanted to clarify with most of these different kinds of efforts to have a stable price rather than at the lowest possible price, those are mostly dependent on the-- on us asking the utility --company to make a guess about what's going to happen with the pr 4ces? Am I understanding that correctly?

MR. WOOD: Doug?

MR. MICHEEL: Currently the way the system works right now, and I think the system is always going to work, is the natural gas utility has the obligation to purchase the gas because they're in the business and rate payers are paying for their gas supply department personnel and it's their job-- okay-- to procure the gas.

And generally the way we have it right now, it's their job to ensure that they get reliable supplies at just and reasonable rates and that they have enough gas to supply the needs of customers.

And the question that, you know, you pose is currently under the current PGA system that we have, you can see prices change greatly and fluctuate up and down. And the question that we all struggle with is what can gas utility companies do to mitigate that volatility in price. And the second issue is what's the cost that's going to be related to mitigating that price volatility. As Warren indicated, right now, you know, you ride the cycle, if you will, and you go up and down. Perhaps consumers want to pay a premium for stability. And therefore you're going to miss the peak, if you will, but you're also going to miss the low valley.

So they're going to be-- for example, this winter was particularly bad because November and December in this part of Missouri and in most of Missouri were the coldest November and December in recorded history. So customers were using more gas.

The flip side is if you would get at a fixed cost, gas, and it was a warmer than normal winter, then you would be paying more for gas than you would if you had ridden the cycle.

So those are the trade-offs you have to think about and the issues that we struggle with and the utilities struggle with every day in trying to come up with a system where we have, you know, just and reasonable rates for the gas and we also ensure that there's adequacy of supply for the gas.

AMANDA JONES: Thank you.

MR. WOOD: Does that answer your question?

AMANDA JONES: Yeah, I think so.

MR. WOOD: Okay. Do we have any other questions? Thoughts? Ideas?

BOB BEHNEN: Bob Behnen, state representative for this area. So as I understand it, the problem was in that there wasn't enough supply that the natural gas producers had not done enough RND and there had not been enough supply on hand to meet the demand with the higher-- or the most-- well, one of the coldest winters on record. Is that correct?

MR. WOOD: Yeah. And that's an excellent question. Let me kind of go through kind of what led up to this winter. And this is based on Department of Energy information, AGA reports, different things like that and some of their discussion on what led to this winter's problems.

If you go back to about 1985, you can look at the trend in natural gas prices. Adjusted for inflation the price of natural gas dropped anywhere from 25 to 30 percent. And that coupled with a number of warmer than normal winters just basically didn't provide enough incentive for the suppliers to get out and develop the fields they were in and go discover new fields.

In fact, looking at the ownership of natural g s reserves in the United States, we saw that there was a transfer for many of the big boys in natural gas that we historically think about to a bunch of smaller kind of wildcat-type deals.

And in fact, not that many years ago the count was something on the order of 7,000 different independent gas producers were producing about 65 percent of the gas in the United States.

Many of these are pretty small outfits. And the description was made that they were-- it was like running on a hamster wheel for them. There just wasn't enough cost per unit in it for them to get out and get additional capital to develop new wells.

These groups are not as well capitalized. They're not as willing to take the risk to go develop new supplies. And just basically something that added to it, the fact is that, you know, these suppliers, while they were relatively slow in growth, almost flat in growth looking at some recent articles in the Wall Street Journal, there's some discussion on supply levels. And you can see it's been quite flat for a number of years.

And if you look at the potential demand that we had if we had had normal winters, there was divergence significantly. Three of our warmest winters in the last 30 years were these previous three before this winter.

And so it masked that effect. We had the potential several years ago to see a spike like this, but it wouldn't have been at this magnitude because the separation from supply and demand wasn't as profound. You know, that happened for, three years.

And then wham, we get hit with this kind of a winter, we have a significant offset in supply and demand.

It wasn't that we didn't have enough. It's just that it was-- the margin for-- or the excess in supply was thin enough that those suppliers that were out there could pretty much-- you know, they-- I wouldn't say they could set the price, but they were-- they had the opportunity to charge much higher prices than they had historically.

MR. BEHNEN: So, I mean, as we had developed, you know, a formula basically to identify what the trends are, you know, whether it's a regression analysis or whatever, I mean, certainly we can identify what data would be an outlier so that-- I mean, I guess I'm surprised that over the last three years that based on the last 20, 30 years, whatnot that we wouldn't have been able to recognize the last three were truly data outliers and that we would have-- I guess what my-- my final point of what I'm trying to get to is obviously the problem we had was that we didn't have enough in reserves.

And, you know, we looked to the companies here locally. They were simply passing on the prices that came from the well-hit producers and that was, as I understood it, where the whole problem was, that it went all the way back to the very beginning to the suppliers and not to the companies that we deal with on a day-to-day basis as consumers, but that it was these natural gas producers.

And so I guess my question is, is there any way that we can amend the formula to throw out those three years of data outliers so that we can look at a long-term formula and say, "Okay. This is where the supply level should be," and are we in a position to require certain supply-levels? Does that make sense? Do you understand what I'm saying?

MR. WOOD: Yeah, I understand what you're saying. I think much of what it comes down to is there's-- I believe-- and Tim can jump in certainly or Doug. There is no control at the state or federal level in terms-- of what the suppliers do. It is a completely deregulated market and they respond to market signals and they saw other opportunities doing other things than developing additional natural gas supplies.

And obviously with the market situation we're now in, that has completely turned around and the rid (Phonetic.) counts have changed. One indicator of what's happening, the interest level in developing new supplies is rid counts. In April of ‘99 I think we were at a record low rid count for quite a long trend of years. We're now approaching rid counts that are three or four times that low in April of ‘99-and I think on the order of better than three-quarters of the rids are specifically looking for natural gas.

MR. MICHEEL: But let me make it clear, though, representative. Part and parcel of the problem in my mind as a consumer representative has to do with some of the contracting practices that the local distribution companies participate in.

I mean, they can control-- and in my mind it's their responsibility on behalf of the consumers to be purchasing gas. And in my view they should be purchasing a mix-up type contract.

In other words, they should be purchasing some fixed price contract gas. They're going to know generally at a baseline what throughput's going to be in any given winter. Okay?

And they can go out into the market and use different contracting practices where they say, "All right. For five years we're going to enter into a fixed price contract. We're going to pay you a little bit of a premium."

Part and parcel of the problem that we've seen is for some reason a lot of the local distribution companies here in Missouri like to contract with gas supply contracts that are tied to a specific market index and then a premium. So when that market index goes up, automatically that price of that contract escalates.

And part and parcel to what we're trying to do in this task force is to see as a group if there's some way we can work with the gas companies or some-- something we can come together at to kind of diversify that mix and, if you will, kind of shear off some of the spikes and shear off some of the valleys. But I think it-- I would agree that generally it's the producers who, you know, bid up the price, although I think it's important to point out that there was never a supply shortage. We always had enough supply. It was merely market perception in my mind this summer-- or this winter that if we continue to have the cold weather, we might run out of supply.

But it's important that it's the LDC at that level that deals with the contracting practices. And we need to do something, you know, to alter those because generally in Missouri all the LDCs have gone-- buy a contract that's tied to the index. And when it shoots up, the consumer is in trouble.

MR. WOOD: Go ahead, Tim.

MR. SCHWARZ: If I might, I think it might help to talk a little bit about the good old days. In my view, the good old days was 2 years ago and maybe 10 years before that.

Typically all that-- all gas companies have to store some gas during the summer for operational reasons. The fields-- the gas coming out of the fields in the winter isn't enough to supply all of-- particularly the space heating needs of residential customers in the winter.

So as far back as you care to go, they have injected-- pulled gas out of the ground and injected the pipelines and injected it into storage for use in the winter.

And in the good old days, gas in the summer was anywhere from $.20 to $.40 per MCF cheaper. Furthermore in the good old days, natural gas might range between $1.50 per thousand cubic feet and $2.25 per thousand cubic feet. And frankly at those prices, nobody really got very excited about it, particularly because you had the cheaper summer gas in storage to offset even the $2.25.

The market price of natural gas in January of 2000 was about $2.25. Between April and June of 2000 it moved to-- within a range of $4, Nobody had ever seen that kind of move before. All of a sudden you have summer gas not only higher than winter gas normally is, but higher than winter gas really has ever been before.

And I mean, I'm afraid that the good old days are gone. I don't think that it's likely that we'll ever get back to the $2.25 gas that-- I mean, even at $2.25, there are a lot of people who have a hard time paying their gas bills. But people had learned to live in that range.

And I mean, there's a lot of new production going in. But the producers aren't under the impressions that they're producing $2.00 gas. They're under the impression they're producing $4, $5, $6 gas.

And I think that the range of prices that we're facing now-- I mean, we've seen gas go to $9.90 in Missouri. And I mean, while you might be able to live with a jump between $2.00 and $2.25, the jump between $4 and $8 is something else again.

And I think that it just emphasizes the importance of what Doug said, that we need to make sure that the approaches that we take to purchasing gas take out the-- I mean, $4 is going to be hard to live with.
$8, we need to be taking steps to see that that doesn't happen. And I think that the contracting practices can go a long way toward dealing with that.

MR. WOOD: Thank you.

MR. BEHNEN: Thank you.

CAROL DAVENPORT: My name is Carol Davenport and I represent Kirksville Inner Church Ministries. I think the reality is that we all want stable rates and low rates.

MR. WOOD: Understood.

CAROL DAVENPORT: But like the stock market, we-- you know, we can't have that. And I recognize that. My primary concern is that there would be some kind of program in place that would ensure that people who live on the margins are able to continue to have heat during the cold months.

And I'm not sure exactly how we make that happen, but that would be my primary concern. And, you know, perhaps stable rates is the best way to do that. You know, the reality is that for many of us, high gas prices don't threaten whether we can pay our mortgage or buy groceries for our family. But for a large number of people in our community, that is the stark reality.

And, you know, I don't know if the answer is a stronger encouragement for those folks that they get on some kind of budget payment plan where they're paying a stable rate every month. I'm really not sure what the answer is. But that's my concern.

MR. WOOD: Thank you. I think that's-- you're consistent with much of what Doug and Tim were talking about in an interest in doing some things to try to bring some stability-- certainly cut the spikes off and understand that-- but along with the lines that Tim was mentioning, we do have an issue where it's-- if we stabilize at $5 where we used to have problems with $2.25, then how much good have we really done?

And I would note that there are some options here that the task force is looking at for alternative mechanisms for low and fixed income customers. And there's also some other-- Doug?

MR. MICHEEL: I just wanted to say there-- we have a pending rate case with Missouri Gas Energy, which is the local distribution company that serves essentially the western half of the state, Kansas City area, St. Joseph, and Joplin.

And our office has proposed a special low income rate for customers who are having trouble paying their bills. And essentially what, you know, the goal of that is-is to ensure that those folks on the margin are getting, you know, continuous heat during the winter.

But also we're recognizing that it's better for all customers that these folks stay on the system and make some sort of payment toward their bill because what happens in the rate-making process is when local distribution companies have, large uncollectibles, you know, that they can't collect from their customers, when they come in for a rate case and they ask for rate relief, those uncollectibles are placed in the rates and all other customers, you know, pick those up.

So we-- and I don't know where it's going to go. But we have recommended to the Commission that a low income rate be in place and to give certain customers that meet some criteria, eligibility criteria a lower gas rate, if you will, and maybe some extended payment plans in order to try to alleviate that problem.

So the concerns about low income customers are something that we do talk about, that we do think about. It's something we're going to think about in this task force. And, of course, you know, we still have the Cold Weather Rule which prevents cutoffs and things l@-ke that.

And I know that our office and the utilities and the Commission have worked in the legislature to ensure that the utili-care legislation be funded every year, which is kind of similar to LIHEAP or ECIP and things like that. So those are some things that we're doing, recognizing the need for those folks on the margin and the less fortunate folks.

MR. WOOD: And I would note there are some handouts up on the table on the Cold Weather Rule that go into quite a bit of detail as to cutoff provisions and different rights that they-- that those folks have.

MR. SCHWARZ: Warren? MR. WOOD: Yes?

MR. SCHWARZ: If I might, you mentioned a budget payment plan. And my thinking is that budget payment plans don't really address this kind of problem. That is, if the most that a person can afford is $500 per year for utility service, spreading out an $800 per year bill over 12 months or $800 worth of usage over 12 months, you'll end up with a $300 deficit that has to be funded at the end.

So budget payment plans are certainly useful in a lot of situations, but I don't think that they'll address th is particular problem.

MARY BAILEY: I would agree with you I think we saw that this year, that it did not. An', that affected everybody and--

MR. SCHWARZ: Yeah, me too.

MARY BAILEY: -- everybody complained about that. I would just underscore what Davenport said earlier. We, at the Community Action Agency work with the ECIP program. And as you know in Missouri, Social Services and legislature, everyone has worked very hard to put more funding into that program recognizing the need of low income people.

And just to give you some idea of the kind of impact that this winter has had in this area-- and I would point out that this is-- our numbers are not big numbers because we're a very rural area.

We serve five counties and they're very rural counties. So these numbers don't compare with Kansas City or St. Louis or some metropolitan area.
Last year in our ECIP program, our utility assistance program, we served about 290 households. That's unduplicated numbers. This year we served 799 households, again, unduplicated numbers.

Our average payment-- assistance payment last year was about $153. And this year our average assistance payment has been $233. Obviously there's been a lot of fluctuation up and down.

The interesting thing about those household numbers is that the lower number for last year, the 290, reflects both the summer and the winter programs for ECIP.

The $799 for this year doesn't-- is winter only. We, at this point, do not have money for summer from that particular program. We have been out of funds for utility assistance from that program since-- gee, April, middle of April as far as being able to obligate more.

And the ladies here from the Salvation Army and also from the Red Cross can attest that we all have very large waiting lists.

So when you think about being out of utility assistance money for a large segment of the population since, let's say the end of April just to use round figures, at that point you haven't had the heating bills coming in for April, which is a month that does require heating in this area as is May a little bit. The last day or so I've seen some people are heating.

We had from the E@ip program for our five counties this year $304,000 that we have distributed in payments. Last year we had for the entire summer and winter program $105,600. I'm rounding those numbers.

But you can see the comparison for this winter And I'm sure a part of it was certainly it hit very early in November and December. There's little doubt about that.

One of the most disparaging things for families I think in this area was the increase-- I think that was probably an emergency increase that we had early this year where we had a rise of I think about 32 percent-- and I may be a little off on that percentage-- in natural gas prices. And regardless of the need or the merit for that, it was very difficult for our people to absorb.

I would like you also to keep in mind that a large number of the families that we serve are people who are on fixed incomes. The Social Security-- basic Social Security benefit that a lot of people in our area receive is between $6,000 and $7,000 a year.

Think about trying to pay some of the bills that some of you may have had on an income like that, plus keep up with the other normal expenses.

So it has been an unusual situation. And I think it would be helpful to have some mechanism at least to address those kinds of issues because they're-- there's no way that people in the income range that I mentioned and many of the people we serve at less income than that or even a working family in an average job in this community is going to be able to react to those kinds of increases on a regular basis.

And I'm not singling out natural gas. It's just a fact of life that incomes are fairly limited.

MR. WOOD: Thank you. You had a--

ANNE BARLOW: Yes. I'm Anne Barlow from the Red Cross office here in Adair County. They would have a budget payment-- the customers, I mean, that are-- when her ECIP funds ran out, then the Salvation Army, the Red Cross, the Emergency Relief Ministries, which is a fund that is supported by the local churches, those would just be overrun with requests to pick up that utility bill.

On Monday alone, I had 43 cases between 8:00 and 3:00. 35 of those were from natural gas bills where they will be-- they were calling in your settlement month. And in the month of May I probably sent $5,000 on nothing but utility bills, most of them for natural gas. And that's just from the funds that I have can go over.

Apparently if the client had been on a budget billing and they had missed two of their payments, they were automatically kicked off of that budget billing here and they would have to pay the whole bill every month it came in.

And some of these people on fixed incomes, they just can't do that. The social agencies that do this sort of work, I think I’m probably the only Red cross chapter in the state that does this.

They-- we try to use as a one-time emergency service; not as a way of life. The Salvation Army and I, we have a network by which we can weed out the people that are users of the system.

And we-- we're joined at the hip, so to speak, because we talk every day about, "Well, there's so-and-so. She's out looking for funds" or whatever. And we try to put restrictions on there so that we treat each body-- everybody fairly and-- so we don't let one customer take advantage of our system.

But the buck is going to stop because the funds are just not going to be there. You want to say something? She doesn't want to say anything. I guess I said it all.

MR. WOOD: Thank you. Is there anybody else that would like to speak? Anybody else? Last call. Okay. Well, since we have no more folks who wish to speak, we'll go ahead and close this meeting. Thank you all again for attending. Your thoughts tonight have been taken down by the court reporter and will be provided to each of the task force members for consideration in developing some of the options that we're looking at for possibly making some adjustments in the future. Thanks again for attending and have a safe drive home.

(Proceedings concluded at 6:58 p.m.)